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The Death Tax Debate Will Not Die

By John W. Hetherington

The debate over the Connecticut estate tax continues. Opponents of the tax argue that even moderately wealthy people are seeking a better jurisdiction for passing on, while proponents say no one is leaving because of the tax. The truth seems hard to determine. We don't conduct exit interviews. But we can examine what we know.

Some of the evidence is faulty. The number of people earning serious money in Connecticut has continued to increase since the tax was adopted. Reportedly, since the tax became effective as of January 1, 2005, the number of households making $1 million annually increased 44% and those knocking down more than $2 million climbed 57%. But that is based on income tax, very probably paid by people who are employed or at least not retired and not focused on estate planning. So it doesn't tell us much about what people are doing who are thinking about their estates.

Empirical evidence is difficult to obtain because leaving for the truly rich need not mean visibly forsaking the Connecticut scene. We are not likely to see the up-scale equivalent of a scene from *The Grapes of Wrath*, with Jaguars lumbering south on I-95 under loads of designer goods. Those who can afford sophisticated advice will use their mobility and nimbly shift their residence, still appearing for their favorite times in Connecticut. Those left to suffer the tax most will be those of more modest means who became wealthy on paper after a lifetime of work, savings and mortgage payments.

The anecdotal evidence I have collected tells me that people are definitely leaving because of the estate tax. After all, there is a lot to fear. Once the $2 million line is crossed, the basic 5% rate applies back to dollar one. So $1 over the $2 million exemption brings down a tax of $100,000. Then, for someone who dies owning real estate outside of Connecticut, the value of all of that property is swept under the Connecticut estate tax. One may *Live Free or Die* in New Hampshire, but that little cottage on Winnipesaukee will not escape Connecticut tax if one dies here.

The estate tax increases unfairness. For example, real estate value has soared in recent years, so the homeowner is struck with escalating property taxes while alive and an estate tax at death. It also represents bad tax policy. A small business owner accumulates value in an enterprise that is then subject to a valuation at death for the purpose of imposing an estate tax. The same is true of a farm, except the farm may receive a double hit both because it includes inflated real estate and also because it is a business. As a consequence, businesses and farms are broken-up to pay taxes on the death of the owner, which is the opposite of the result we ought to be promoting for the sake of our economy.

In a $14 billion budget, the estate tax yields about $193 million. With a surplus approaching $1 billion, we could easily end the estate tax. We should. Not only because it encourages the wealthy to shift their resources away from Connecticut, but also because it is unfair, ultimately falls most heavily on the middle class, and because it discourages the kind of economic activity we should be supporting.